

Self Insured Group Requirements

The Office of Self Insurance Plans (SIP) authorizes qualified employers to provide their own coverage for workers' compensation liabilities. Small and medium-sized businesses have the option of joining with other employers in the same industry to self insure their workers' compensation liability as a group. All Self Insurance Groups (SIGs) must be approved by SIP and are required to post a security deposit covering 135% of estimated future liabilities. As of November 2010, the state had a total of 29 SIGs. California has one of the largest self insurance programs in the nation and has some of the strongest regulations designed to ensure the system protects both employers and employees.

A lagging economic recovery after the 2007 recession has led to decreases in payroll and diminished active membership for some SIGs. Resulting deficit issues for some SIGs resulted in SIP recommending improvements to SIG regulations including shortened reporting timeframes, more detailed financial reporting requirements and a prospective analysis of financial stability.

New changes

The proposed rulemaking package includes regulatory changes that will:

- Add additional reporting requirements for SIGs including earlier financial reports and actuarial reports to support members' contribution rates.
- Authorize SIP to provide information on any SIG to the Self Insurers' Security Fund (SISF) for greater scrutiny by actuarial analysts.
- Allow SIG deposits to be fully covered by the Federal Deposit Insurance Corporation.

SIG Requirements

80% Actuarial Confidence Level

California requires that each Self Insured Group (SIG) fund, on a year by year basis, to an 80% Actuarial Confidence Level, plus expenses. This level is one of the highest funding requirements in the country and requires that a SIG collect contributions that will meet or exceed its losses, plus expenses, 8 out of every 10 years.

In other states where there has been "underfunding" in SIGs, such as New York, those state's requirements have allowed a SIG to collect only enough money to have its assets meet its liabilities or, simply put, fund to a 50% actuarial confidence level. California has never allowed a SIG to dip down to funding levels that even approach those of other states without ensuring corrective action is taken. ([See the self insurance plan requirements in California as compared to those in New York.](#))

Annual Independent Audits

Each year, California SIGs are required to conduct a financial audit performed by an independent Certified Public Accountant. The audit is sent to SIP for review. Since the legislation allowing for the

creation of SIGs, DIR has always managed SIGs and other self-insured workers' compensation programs. DIR is well versed in SIG regulations and monitoring controls to ensure that SIGs are properly managed and funded.

Security Deposits for Each SIG

California requires that each SIG has on deposit with SIP a security deposit that is separate from the SIG's operating account, amounting to 135% of the SIG's estimated future liabilities. This deposit is designed as added security to be utilized in the event that a SIG should become insolvent.

Excess Insurance

California requires that all SIGs maintain excess insurance to pay for the cost of any individual claim that exceeds \$500,000. This allows the SIG to limit its exposure to large losses on any individual claim.

Self-Insurers' Security Fund

The California State Legislature called for the creation of the Self-Insurers' Security Fund (SISF) in 1983. SISF exists to cover the claims of any self-insured employer, including a SIG, in the event of the entity's default (similar to the function of the California Insurance Guarantee Association for insurance companies). The SISF provides employees covered by California SIGs with an extra level of protection that is not available in other states.

Firewalls

Under current regulations, DIR and Group Administrators have, collectively, inserted firewalls between the vendors and the SIG preventing some conflicts and requiring the disclosure of other conflicts of interest between vendors and the SIG to SIG members. These additions have made California SIGs stronger and more impervious to the conflicts of interest that have lead to some of the problems in other states.